

Annual Review: 2017

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Introduction

We use the fund as the primary entity to invest our personal capital. Investors in the fund are effectively investing their capital next to ours. We do take meaningful risk where we perceive we have an investment insight that is different to the market and we have some confirmation of that insight. When we cannot find suitable opportunities, we prefer to sit in cash rather than invest in what we consider to be lesser ideas.

Both asset values and downside risks generally seem high to us; they have for the last couple of years. This is evident in the fund positioning and the manner in which we have invested the fund. It is also evident in that we have not identified any recent ideas that we have considered as being suitable for our institutional mandate offering.

Despite our concerns about the longer term purchasing power of cash, we think the immediate flexibility it provides is valuable, particularly in today's environment where equity indices are at all-time highs and interest rates and volatility at lows. We believe there will be better opportunities in the future to invest into the operating businesses we want to own.

Today the fund owns a collection of businesses that we are prepared to hold longer term. These businesses generally have important positions in their markets, are well-managed, reasonably geared, and have some enduring asset quality. We also think they generally have attractive internal reinvestment opportunities.

We would welcome a period of stress in markets, enabling the fund to broaden its exposure into some new areas and to also increase some existing investments at lower prices.

Thank you for your support during 2017, and best wishes for the year ahead.

Miles, Nigel and Toby

Fund Positioning

The fund started the year with 10 long investments and was 49% gross invested. At the end of the year it held 10 investments and was 48% invested. Notable changes to the investments in the fund over the year follow.

We acquired two new oil related investments, Santos Limited (4%) and Schlumberger Limited (3.5%). Our attraction to these businesses is not based on optimism around a rising oil price, rather we were attracted to company specific factors.

We also invested in two smaller European based industrial businesses, Tikkurila Oyj (6%) and Eurokai GmbH & Co. KGaA (7.5%).

We expect that the fund's oil exposure and recent investments in the two smaller European industrial businesses will increase the day to day volatility of the fund's NAV; more so than the 48% gross investment exposure suggests.

The fund's invested position was reduced by 17% during the year due to the sale of various investments that resulted from corporate activity.

New Investments

Santos Limited

The fund bought an initial 4% position in Santos at \$3.52 in May. Our investment in Santos is based around the progress management is making in driving meaningful improvements in their operated assets and that management are more open to operating co-operatively within the industry. We also believe there may be some valuable legacy midstream assets that support Santos' activities in the Cooper Basin and along the East Coast of Australia. Our investment was not based around the value of these midstream assets but should this view prove correct it would suggest further material upside to the share price.

Schlumberger Limited

The fund bought an initial 3.5% position in Schlumberger at US\$62.87 in August. We regard Schlumberger as being a well-managed, highly skilled business with cultural and technological advantages. We are attracted to Schlumberger when we think about their positioning and activities from the perspective of the various National Oil Companies (NOCs). We believe that Schlumberger's recent acquisitions and further expansion into integrated projects and financing enables the company to leverage their IP more broadly and to uniquely line up with the individual needs of the various NOCs (compared to other services companies and also compared to the exploration and production (E&P) companies). If this observation proves correct, it implies that the long term structural earnings power of Schlumberger is materially increasing. We are attracted to this structural shift.

Tikkurila Oyj

The fund bought a 6% position in Tikkurila Oyj from August to November at an average price of EUR16.19. Tikkurila is a Finnish based decorative paints and industrial coatings business with leading decorative paint market shares in Finland, Sweden and Russia; the industrial coatings business holds strong regional positions. Tikkurila's core brands date back over 100 years. We identified Tikkurila as an attractive business when we were initially working on Akzo Nobel and have continued to monitor it.

Recently the earnings base of the business has been negatively impacted by Russian sanctions, input cost pressures and an ERP system rollout that has been more difficult than expected. We think these negative issues are transient and obscuring a high quality, defensible business with attractive internal reinvestment opportunities.

Eurokai GmbH & Co. KGaA

The fund bought a 7.5% position in Eurokai between June and November at an average price of EUR39.84. Eurokai is a European based family controlled and managed port terminal operator with 12 concessions located across the northern range ports and in southern Europe. We perceive that the fund is essentially investing alongside the family longer term, which we are happy to do given their history and day to day involvement in the business. Eurokai's corporate structure is complicated, a significant portion of the assets it operates are equity accounted and the listed entity is illiquid. In addition, the northern range ports continue to suffer from material overcapacity built leading into the GFC. We believe these various issues are obscuring some highly desirable, well managed, strategically important, long life assets.

Investments Reduced

Deere & Company

We reduced the fund's investment in Deere in July (-1.1%) and again in October (-1.7%). We were happy to take some profits and reduce the fund's invested position given Deere's recent share price appreciation.

Akzo Nobel N.V.

Our thinking around Akzo Nobel N.V. changed materially in October 2017 when the company confirmed reports that they were pursuing a merger of equals with Axalta Coating Systems Ltd. At this time, we reduced the fund's investment in Akzo Nobel from 6% to 2.5%.

Earlier in 2017, Akzo Nobel was subject to a series of takeover approaches from PPG Industries, Inc. PPG were prepared to pay EUR96 for Akzo Nobel, more than a 50% premium to the prior share price. Akzo Nobel's Boards rebuffed these approaches without a shareholder vote based on the rationale the offer undervalued the company (amongst other things). We were supportive of the Boards' actions at the time, believing there was a superior long term investment opportunity remaining with the status quo.

We view Akzo Nobel's operating performance as being poor since their takeover of Imperial Chemical Industries Plc (ICI) in 2008. We consider that this lacklustre performance is reflected in the valuation of the company. Our [Akzo Nobel investment thesis](#) is based on a view that there are some highly valuable underlying businesses that are languishing; and that there was some initial confirmation that management were starting to get traction within these businesses. Given the brands and market positions we felt there would be a multiyear period of strong operational performance, leading us to a valuation well in excess of PPG's EUR96 offer.

We regard Axalta as a high performing, highly rated, attractive business. It has a history dating back over 150 years. In 2012 it was acquired from Dupont Inc by the Carlyle Group and IPO'd in 2014.

As an Akzo Nobel shareholder the prospective merger with Axalta doesn't make sense (to us). We view there to be nothing equal about a potential merger between the lowly rated, poorly performing Akzo

Nobel with the highly rated, highly performing recently Carlyle backed Axalta. The merger would represent a significant value shift from Akzo Nobel shareholders to Axalta shareholders. We also regard the proposed merger as being inconsistent with the rationale used by the Akzo Nobel Boards in their rejection of the PPG overtures.

When our view shifted from regarding Akzo Nobel as an investment we wanted to support longer term to something more along a line of “if PPG come back, they can have it”; we considered the fund’s position as being too big and reduced it accordingly.

Investments Sold

UK Mail plc (4.4%)

The fund held an investment in UK Mail Plc from November 2015 until it was taken over by Deutsche Post AG in January 2017. The UK Mail investment realised an annualised local currency IRR of 64.8%.

Whole Foods Market, Inc (5.4%)

The fund held an investment in Whole Foods Markets from May 2014 until June 2017. The fund sold its investment in Whole Foods at US\$42.90 following Amazon.com Inc’s takeover offer. The Whole Foods investment realised an annualised local currency IRR of 4.9%. We regard the Amazon offer as being a reasonable outcome for Whole Foods shareholders and an exciting development for the business.

Verbund AG (5.9%)

The fund held an investment in Verbund from March 2015 until October 2017 and realised an annualised local currency IRR of 9.9%. We continue to be interested in the European electricity markets. We would like to find other investments to leverage off the work we have done in this area.

Calpine Corporation (6.7%)

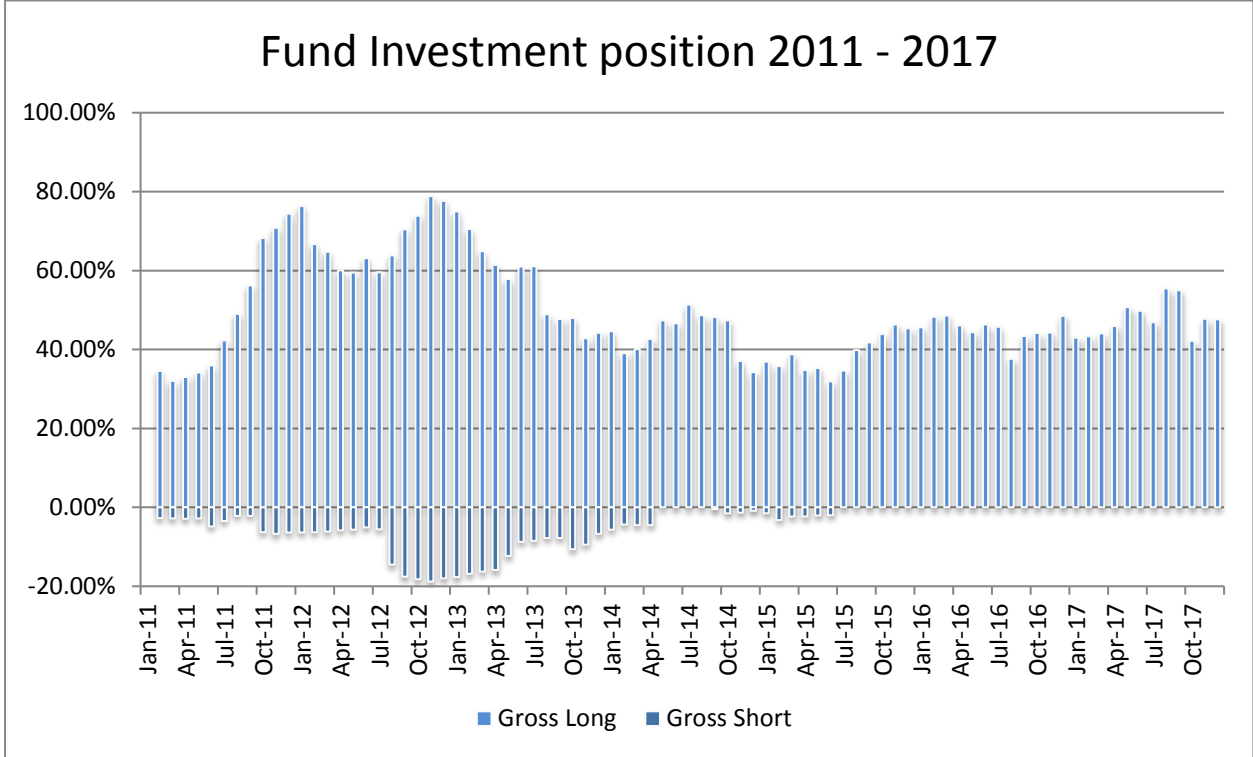
The fund held an investment in Calpine from June 2016 until October 2017. We sold the Calpine investment at US\$14.84 following a takeover offer from Energy Capital Partners. The Calpine investment realised an annualised local currency IRR of 10.5%. We were not enthusiastic about the offer price or the process that surrounded it.

The following tables summarise the fund's investment position at 31 December 2017.

	Australia		United States		UK/Europe		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet 1: Infrastructure related			11	2			11	2
Undisclosed			5	1				
Undisclosed			6	1				
Tenet 2: Paint / Coatings					9	2	9	2
Akzo Nobel					2	1		
Tikkurila					7	1		
Tenet 3: Oil Related	6	1	4	1			9	2
Santos Ltd	6	1						
Schlumberger			4	1				
Deere & Company			3	1			3	1
Dover Downs Gaming			3	1			3	1
Topps Tiles					5	1	5	1
Eurokai					8	1	8	1
Gross long	6	1	20	5	22	4	48	10
Gross short								
Gross invested position	6	1	20	5	22	4	48	10
Derivatives (annual cost)							3	3
Notes: Totals may not add due to rounding. Data as at 31 st December 2017.								

	31-Dec-16	Purchases	Sales	31-Dec-17
UK Mail	4.6%		4.4%	0.0%
Whole Foods inc	4.1%		5.4%	0.0%
Tenet : Gen Co.				
Calpine Corp	5.8%		6.7%	0.0%
Verbund	5.3%		5.9%	0.0%
Tenet 1: Infrastructure related				
Undisclosed	6.8%		2.7%	5.1%
Undisclosed	6.6%			6.0%
Tenet 2: Paint / Coatings				
Akzo Nobel	4.3%		3.5%	2.3%
Tikkurilla	0.0%	6.3%		6.7%
Tenet 3: Oil Related				
Santos Ltd	0.0%	4.0%		5.7%
Schlumberger	0.0%	3.5%		3.7%
Deere & Company	4.5%		2.8%	2.6%
Dover Downs Gaming	2.4%	0.8%		2.9%
Topps Tiles	4.2%	1.0%		4.6%
Eurokai	0.0%	7.5%		8.0%
Total	48.6%	23.1%	31.4%	47.6%

31 December 2017	
Large capitalisation (\$3 billion plus)	25%
Mid / Small capitalisation (\$100 million to \$3 billion)	19%
Micro capitalisation (less than \$100 million)	3%
Total	48%



Investment Results

The fund returned 4.9% for calendar year 2017.

The contributors to the return were as follows:

- Long equity investments (in local currencies) contributed 14.2%;
- Movement in the Australian dollar cost 1.8%;
- Yen options cost 5.3%;
- Currency hedges cost 0.5%; and
- Equity derivatives and short positions cost 0.5%.

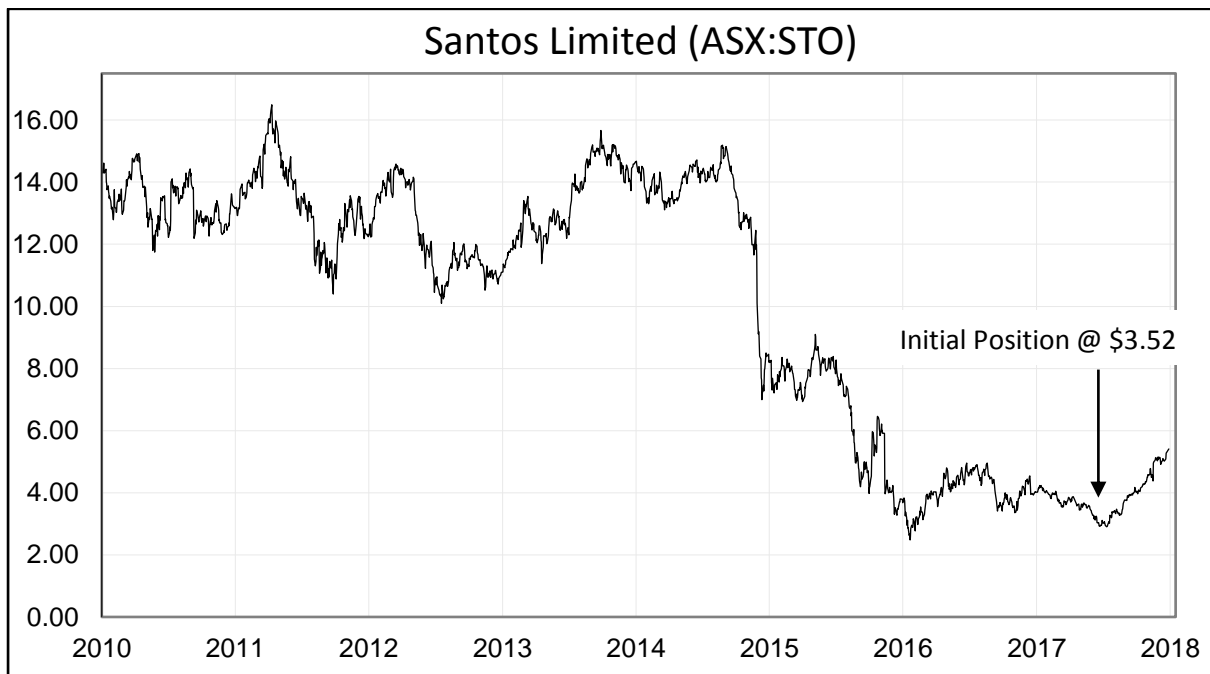
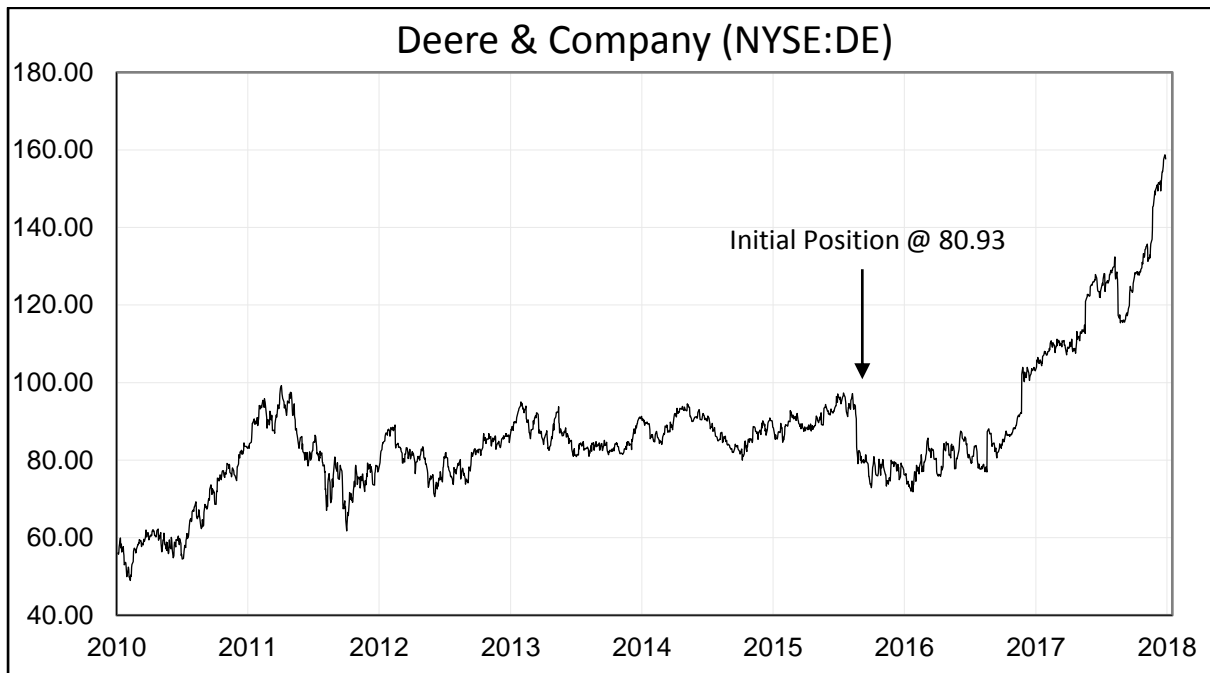
The cost of the Yen options in 2017 was larger than the circa 2% we have been spending annually on option contracts. The increased loss was the result of the fund holding a contract at the beginning of 2017 that had appreciated to approximately 3.5% of the fund's NAV. This contract expired worthless in February 2017; it positively contributed to the fund's performance in November and December 2016, and then detracted in January 2017.

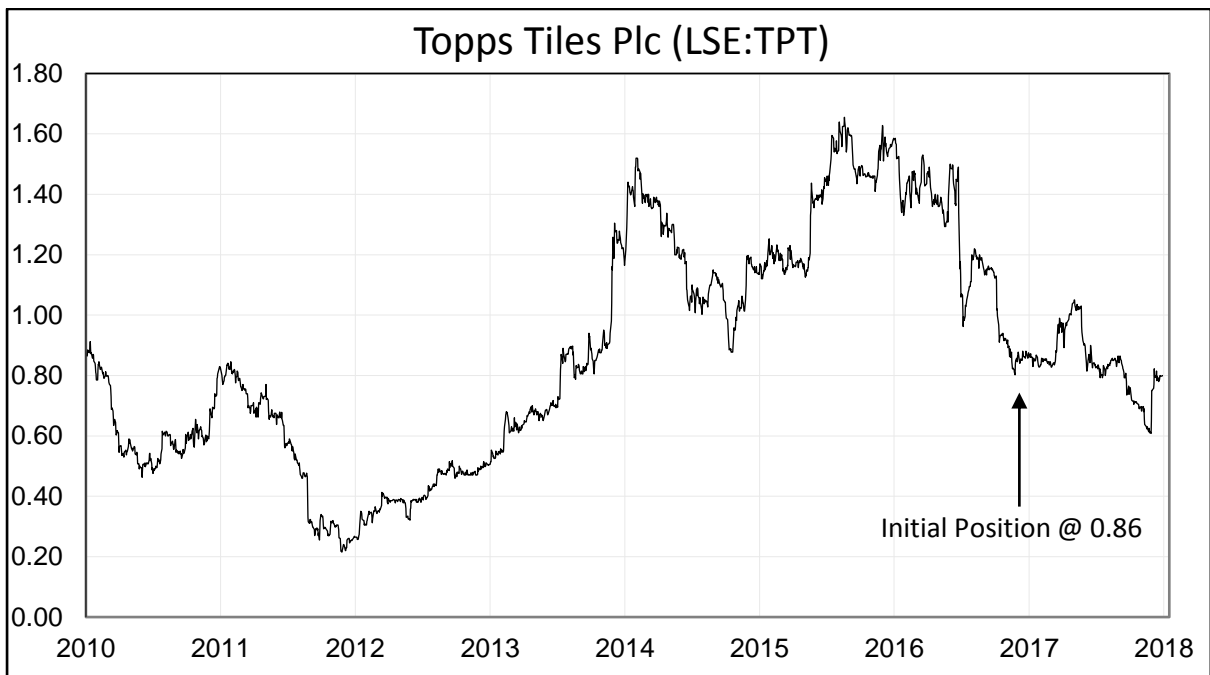
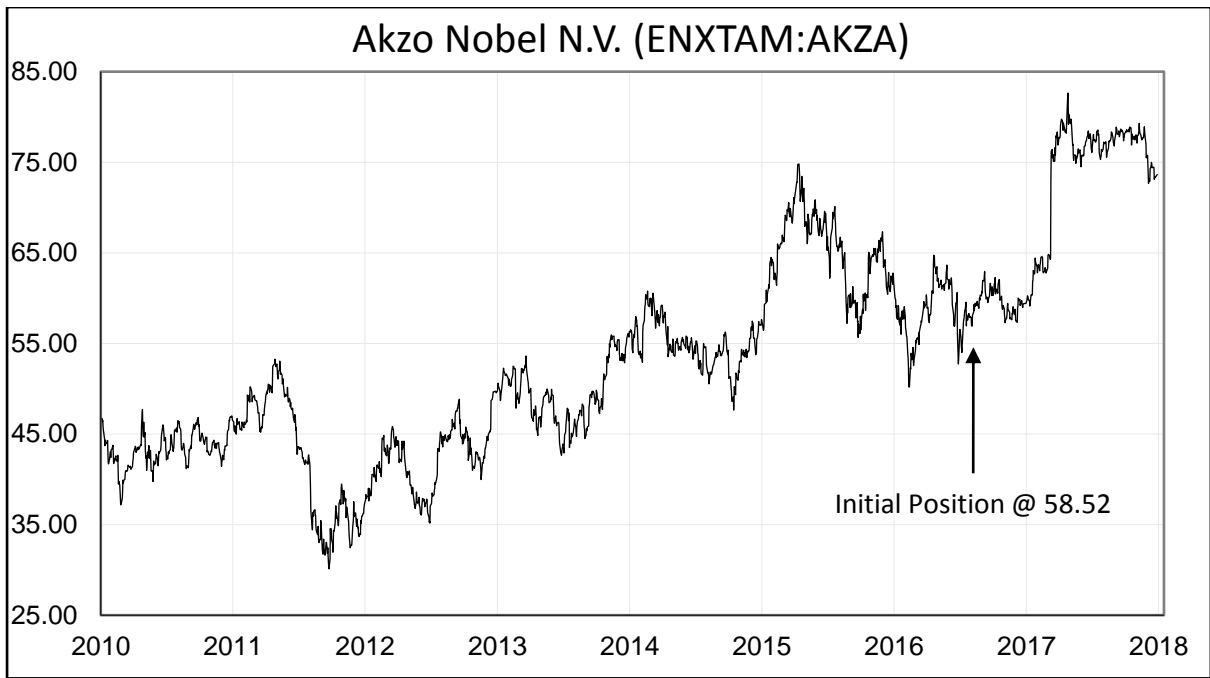
Returns (to 31/12/2017)	Fund
Since inception* (annualised)	10.4%
Since inception* (cumulative)	115.0%
Rolling 5 year (annualised)	14.5%
Rolling 3 year (annualised)	3.8%
Rolling 1 year	4.9%
Standard deviation	8.9%

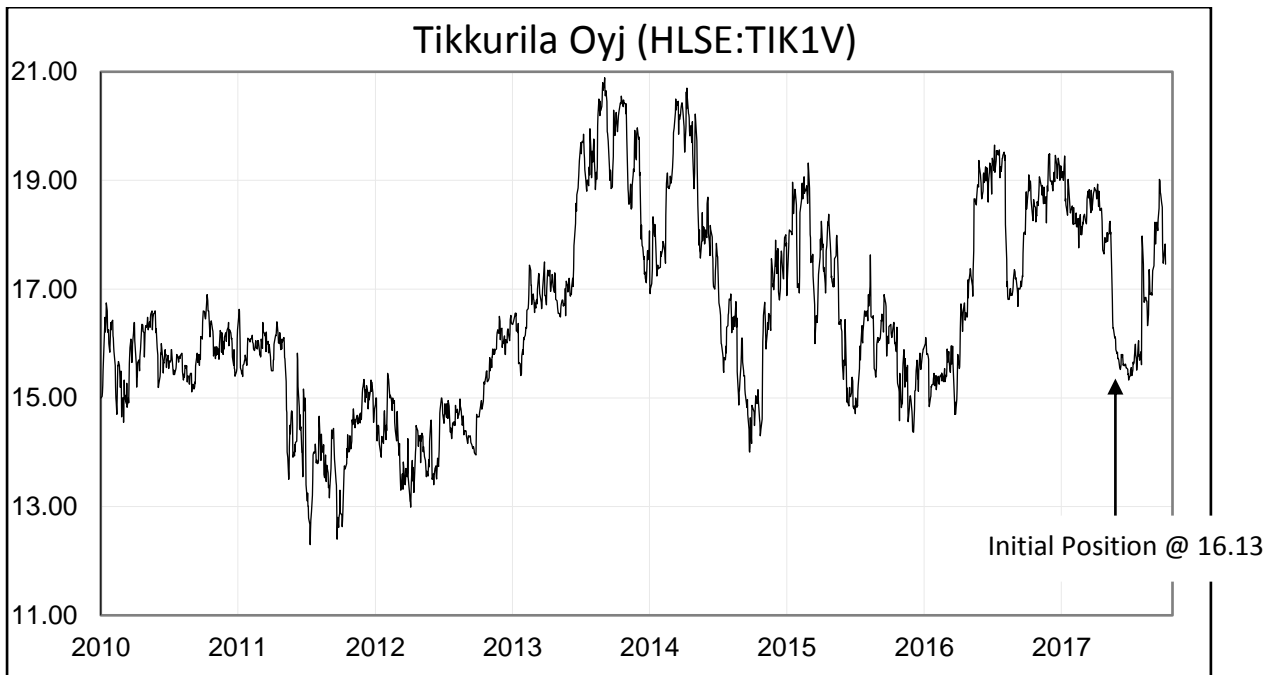
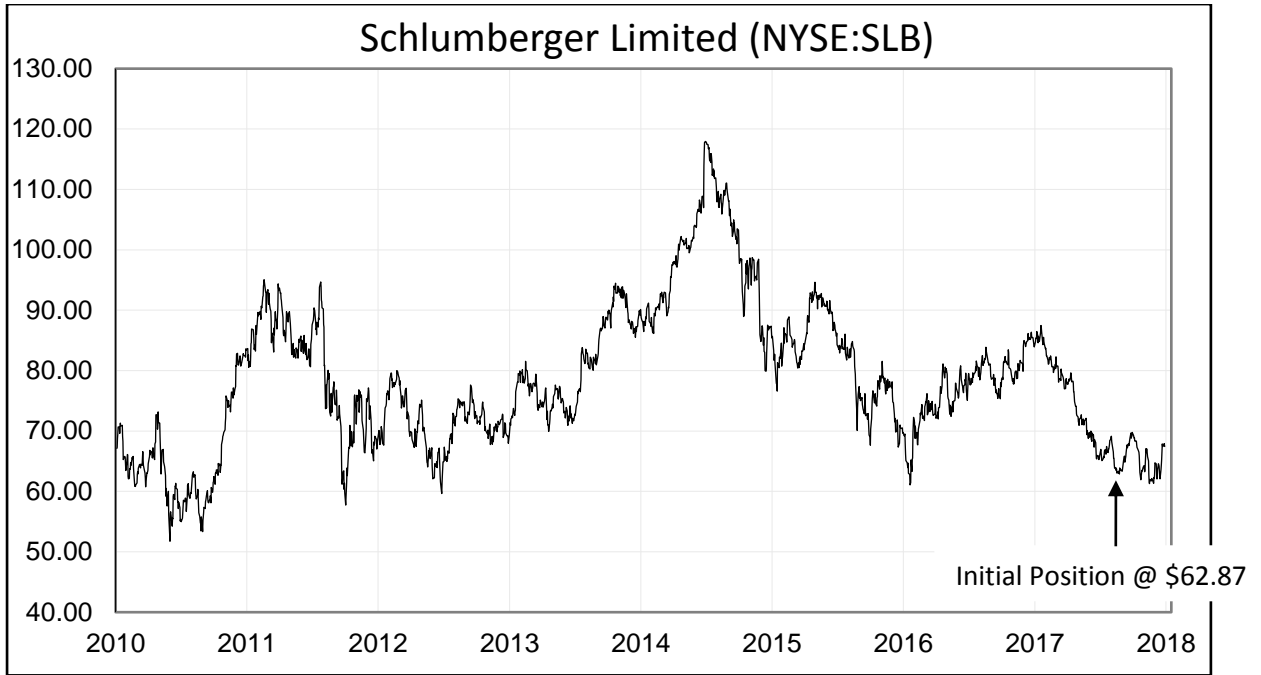
Financial Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%
August		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%
September		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%
October		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%
November		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%
December		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%
January		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	
February		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	
March		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	
April	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	1.72%	1.34%	
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	4.12%	1.84%	
June	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	
Financial Year	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	
Calendar Year		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	

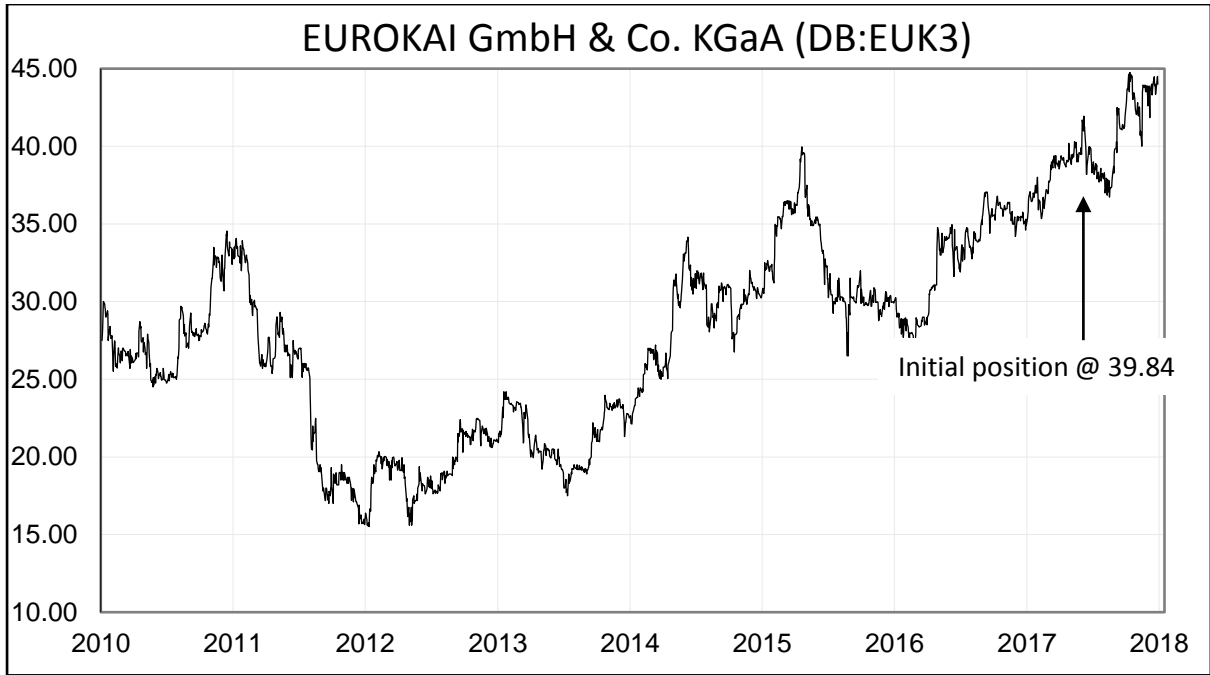
* Inception date: 15/04/2010

Appendix A: Chart Pack

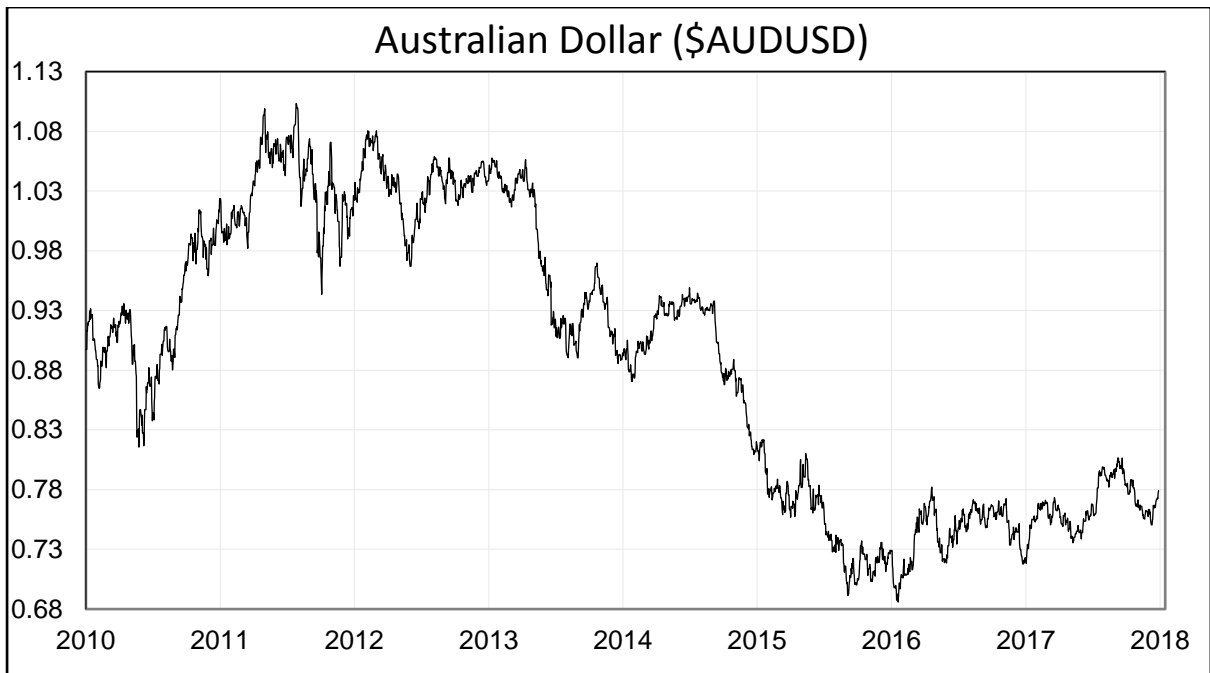


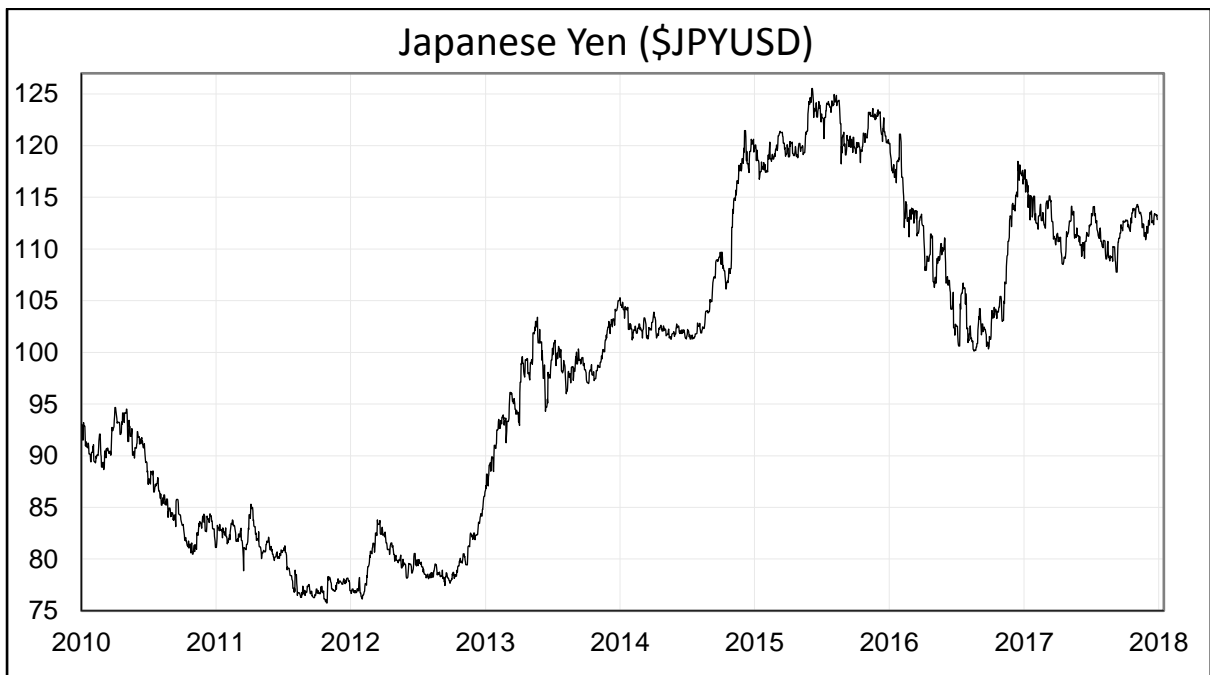
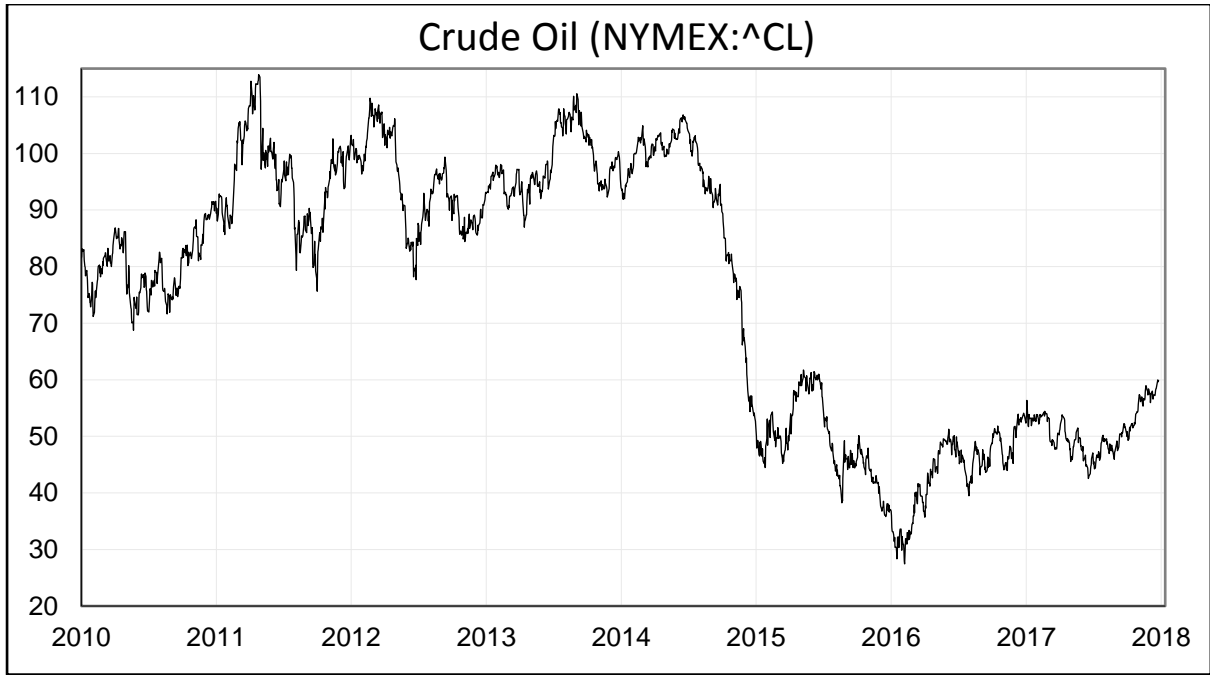






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